

**TESTIMONY OF
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MEMBER OF THE
NATIONAL SMALL BUSINESS ASSOCIATION
AT A HEARING BEFORE THE
SELECT COMMITTEE ON ENERGY INDEPENDENCE AND GLOBAL WARMING
U.S. HOUSE OF REPRESENTATIVES
ENTITLED
“ECONOMICS OF DEPENDENCE OF FOREIGN OIL—RISING GASOLINE PRICES”

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Chairman Markey, Ranking Member Sensenbrenner, and members of the committee, my name is Mike Mitternight, and I am the owner of the of Factory Service Agency Inc., a family-owned small business, established in 1975, located in the NewOrleans suburb of Metairie, Louisiana. My company specializes in commercial air-conditioning service and installation throughout southeast Louisiana. I also am a member of the National Small Business Association (NSBA), the oldest small-business advocacy organization in the United States.

I would like to thank you for inviting me to testify today about impact of rising gasoline prices on small businesses, particularly mine. I am very grateful that you are cognizant of the negative effect increasing gasoline prices are having on small businesses across the country and are seeking to address it. Whatever the cause, the volatile and increasing price of gasoline is wreaking havoc on America's small businesses.

In the day-to-day operation of my small business, I have as many as six service trucks and three management vehicles on the street at any point in time. In order to carry the load of tools and equipment necessary to provide the service for the equipment upon which we work, most of my service vehicles are three-quarter- ton pick-up trucks. Obviously, these trucks fall into the category of non-fuel efficient vehicles. Unfortunately, there is no affordable alternative to this choice.

Currently, the cost of gasoline in the Metropolitan New Orleans area varies from \$2.88 per galloon to \$2.93 per gallon—this is from a low of \$1.98 per gallon late last year. This sudden and unpredictable 50 percent increase hits directly at the bottom line of my business—and countless others. In my industry, one major problem is that many of my service and maintenance contracts are fixed-cost contracts, with billable rates established in advance—sometimes for a period of a year—with no opportunity to recoup increased expenses. Although, I routinely try to include an estimated escalation percentage in my pricing, the actual cost of gasoline is impossible to project.

Michael A. Mitternacht
National Small Business Association

If I project too large an increase, I will lose out on the contract. If I project too small, I will lose money on the contract.

The direct impact on cash flow, the life blood of any business, is seen when you compare a weekly operating cost for fuel—from \$325 in December 2006 to my current expense of \$510 per week. This represents an increase of 60 percent in only five months! A fellow contractor in my area provided me with cost figures for his company, showing an increase of 113 percent in fuel costs between 2002 and 2006. How in the world is a small-business owner like me supposed to cope with this sort of volatile and devastating price increase? How can I be expected to formulate a viable business model with these sorts of wild price fluctuations? How can I grow my business and hire additional workers with this degree of uncertainty lurking behind every contract?

As the summer months approach, fuel costs continue to rise almost exponentially with the temperature. Unfortunately for my business, this summer price surge occurs during a period of increased fuel consumption as a result of expanded service activity. I dare say that these numbers are typical for all businesses, regardless of their geographic location. In fact, 75 percent of respondents to an NSBA energy survey last year reported that their businesses had either been “significantly” or “moderately” affected by rising energy prices. Only seven percent of the small-business respondents reported not having been affected.

In order to maintain any level of profit in my operation, I have no alternative but to pass the cost of rising gasoline onto my customers whenever possible. On variable rate service calls, we have been forced to include a fuel surcharge on our invoices, in order to regain the increased cost, and be fair to our customers by not arbitrarily increasing hourly service rates. I am not alone in rising prices whenever possible. According to 2006 NSBA small-business, energy survey, of the businesses that reported passing along their increased energy costs to customers, 65 percent increased their prices, 47 percent reduced their amount of business travel, and 18 percent reduced their workforce. The ramifications of rising gas prices reverberate throughout the entire economy.

A unique problem that I face is the fact that in some of the still-recovering portions of the New Orleans area the availability of service stations is a factor. No longer are there sources of fuel on almost every corner. It is imperative that my service technicians be properly routed to ensure that they have access to fuel before they embark on their daily routine. Since rushing to reopen my business, only two weeks after Hurricane Katrina struck, I have had to deal with myriad challenges. The immediate problem of removing flood waters from my property, working to help family and employees return and recover, re-establishing customer contact, and establishing necessary financing when “Accounts Receivable” became “Accounts Inconceivable,” all seem to have been a foreteller of today’s problem of upward spiraling fuel costs.

Despite such persistent obstacles, the situation in New Orleans has improved—at least I no longer have to fill five gallon gas cans at remote locations and fuel my trucks by hand. Now my main concern seems to be, “What will the price be at the pump when my trucks roll out in the

Michael A. Mitternacht
National Small Business Association

morning?” It is one thing to deal with such uncertainty and volatility in the midst of what was arguably the worst natural disaster in the nation’s history, it is another to have to deal with it day-after-day a year and a half after the event.

Like any other business, my company grapples with a spate of business complications, from rising refrigerant prices, increasing costs for construction materials such as copper, compliance costs to satisfy more stringent building codes, escalating labor rates due to workforce shortages, and other ever-increasing expenses such as health care costs. Most of those problems can be dealt with via a planned management approach, however, because the variables are somewhat predictable. Fuel costs that jump three percent to six percent in a matter of days or weeks are virtually impossible to endure.

In addition to being a small-business owner, I also am a member of the National Small Business Association, which recently adopted a comprehensive energy policy. Acknowledging that global climate change is real, the small-business members of NSBA believe that the time has come to conclusively address America’s oil dependence and the shortcomings of its national energy policy.

NSBA supports increasing and diversifying America’s domestic energy production, and encouraging the research and development of viable and cost-competitive clean and renewable energy solutions. This effort will no doubt require the initiation of myriad regulatory and administrative actions. NSBA is not in the habit of recommending new governmental programs or increased regulatory and tax burdens—preferring free enterprise, market solutions, and a neutral tax system—but the unique and urgent contours of America’s environmental and energy policies and energy industry demand governmental intervention. Although I am confident that such an action can be successful, I cannot stress enough that it must be realistic, flexible, and science-based. It also must focus on technological innovation, the development and use of cleaner energy alternatives, and an increase in energy efficiency and conservation. It should utilize the power of the market and protect American businesses and jobs. It also must avoid placing too onerous a burden on America’s small businesses, which are particularly vulnerable to increased regulatory and tax obligations and already shoulder a disproportionate share of the costs of federal regulations and paperwork compliance.

Revolutionize U.S. Transportation and Automotive Industries

Transportation is the crux of America’s oil dependence: 97 percent of the oil used in the United States is consumed for transportation. Only about two percent of the energy consumed by the nation’s transportation fleet comes from renewables. Automobile emissions also are the second-largest source of carbon dioxide in the country. This must change. It is time to make a concerted effort to revolutionize the country’s transportation and automotive industry. If the United States is to reduce domestic demand, regulatory incentives to use more fuel-efficient vehicles are needed.

Hybrid Vehicles

Michael A. Mitternacht
National Small Business Association

Hybrid vehicle technology, especially the plug-in hybrid variety, has the potential to help curb America's oil dependence and its global warming pollution, and this potential must be fully explored. As I previously mentioned, my business relies on large, non-fuel efficient vehicles—because no affordable or practical alternative exists. If a more fuel-efficient option existed, I certainly would be willing to explore it. My willingness to explore the potential for energy savings that advanced vehicle technology presents is not unique in the small-business community. Nearly 70 percent of the respondents to the NSBA energy survey reported a willingness to lease an alternative-service vehicle if it could provide, per mile of use, significant overall cost reduction. NSBA supports increased funding and incentives for plug-in hybrid vehicle technology, including advanced battery research. NSBA also supports consumer-tax incentives—without limits on the number of qualifying vehicles—for the purchase of highly-efficient hybrid, clean-diesel, and compressed-air vehicles.

Alternative Fuels

NSBA also supports the continued expansion of ethanol utilization and the removal of the protectionist 54 cents per gallon tariff on imported ethanol. NSBA recommends increased funding and incentives for the use, research and development of biodiesel and other biomass-derived fuel. NSBA also backs increased funding and incentives for biomass research with the goal of making cellulosic ethanol cost competitive with corn-based ethanol by 2012. Finally, NSBA urges federal incentives, especially for small businesses, to increase the use of hydrogen energy, and increased federal investment into the research and development of hydrogen energy. With hydrogen-powered buses operating in Chicago, Toronto, and Reykjavik—and on the horizon in London, Madrid, and Hamburg—as well as the news that FedEx and UPS plan to phase in fuel-cell trucks over the next five years—NSBA is insistent that small businesses should not be left behind in the early utilization of this emerging technology.

Fuel Efficiency/CAFE Standards

Higher gasoline mileage standards have been called the “most-needed reform in the U.S. energy policy,” and with good reason. The average fuel economy of a new vehicle sold in 2001 was lower than the average fuel economy of a new vehicle sold two decades earlier. At 25 miles to the gallon (mpg), the original 1903 Model T was more fuel efficient than the average new Ford vehicle, at 22.6 mpg, sold in 2003. This is not progress.

The Corporate Average Fuel Economy (CAFE) standards—first established by the U.S. Congress in 1975, largely in response to the nation's first oil shock—have lagged behind the nation's need for increased fuel efficiency far too long. While NSBA applauds the Bush Administration's increase of CAFE standards for light trucks and sports utility vehicles (SUVs)—the first such increase in a decade—from 20.7 mpg to 22.2 mpg for the 2007 model year vehicles, more must be done to improve the fuel efficiency of the nation's transportation fleet. A 2001 report from the National Academy of Sciences concluded that existing technologies could produce a 25-to-35 percent increase in fuel efficiency for new cars, pickup trucks, and SUVs—without sacrificing safety or comfort. This improved fuel-economy standard would displace as much petroleum as

Michael A. Mitternacht
National Small Business Association

the United States currently imports from Persian Gulf dictatorships. NSBA supports an incremental but steady increase in the nation's CAFE standards and permanently closing the SUV CAFE standard loophole. In keeping with the recommendations of the National Academy of Sciences, NSBA also supports continued federal funding, in cooperation with the automotive industry, of "precompetitive research aimed at technologies to improve vehicle fuel economy, safety, and emissions." Finally, NSBA supports the efforts of the EPA and automakers to improve the accuracy of the miles per gallon estimates of new vehicles. It is imperative that consumers, especially small businesses, be provided with accurate fuel efficiency information so that they can make informed decisions regarding their transportation needs.

While these recommendations may seem academic, their implementation will have real-world consequences for small businesses like mine and I urge you to consider them. This concludes my testimony. Thank you again for inviting me here today and for recognizing the threat rising and volatile energy prices pose to America's small businesses. As you seek to address America's oil dependence, the shortcomings of its national energy policy, and global climate change, I hope you will continue to keep America's nearly 26 million small businesses in mind. I thank you for your time and welcome any questions.